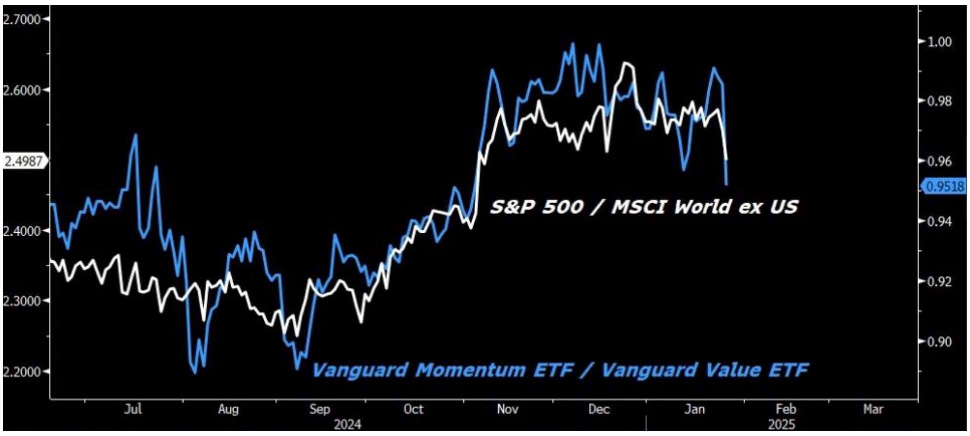
1. US Exceptionalism at risk = Momentum at risk relative to Value = Risk to Dollar

Earlier this week we wrote a note questioning if US exceptionalism was now at risk. Technically, the US bull market started in 2023 following the >20% correction in 2022. Incidentally, soon after the release of ChatGPT in Nov22. History may not repeat but the third year of a bull market is associated with single digit returns. Couple this with an equity risk premium at 20yr lows, Trump policy execution uncertainty and now it seems question marks on what multiples to pay for Tech given the DeekSeek news.



If we are in a single digit US equity return world, RoW has room to outperform. Consider that when the US is up 20% no one cares about RoW. When the US is down 20%, you sell everything. So, in a single digit return world, do we have room for RoW?

With this in mind, we note that the relative performance of the S&P500 vs. MSCI World ex US is synonymous with the relative performance of Momentum vs. Value. See the first chart below.

Delving further, Qi's models shows that Momentum is a bet on higher real rates, higher dollar, higher economic growth – it is the style synonymous with the Trump boom trade. See the following 2 chart charts below highlighting these relationships. The dollar will play a clear role in determining if US exceptionalism is indeed at risk.

2. COPX – efficient cyclical long

Reversal or rotation? Does DeepSeek blow up a richly valued tech sector &, by extension, threaten the broader US equity market? Or is this a micro story - it hurts Nvidia, but cheaper access helps plenty of end users of generative AI & therefore the broader economy?

For those who believe in rotation, the copper miners ETF COPX now sits 11.7% cheap to our model. Overall macro conditions are moving sideways within a broad range.

The miners were hit hard this week as President Trump threatened to include copper, aluminium & steel amongst the areas where he would impose tariffs.

There is no escaping the volatility a Trump presidency brings. Policy announcements will come thick-&-fast via social media posts. Markets will gap up & down accordingly.

The only thing investors can do is stick to a framework where they identify what they like over the medium to long term. And then await a headline to provide an attractive entry level. We may have that now with COPX.

3. Government bonds – where next?

The question of whether the DeepSeek story is a macro or micro shock is critical for bond investors. Monday's equity sell-off prompted a sharp safe-haven driven rally in govvies. Is that justified?

Qi's models for government bonds includes economic fundamentals (the growth / inflation outlook) plus measures of risk appetite. That provides an instant ready reckoner of where markets are priced relative to both dynamics.

Qi Government Bonds Fair Value Table

Green FVG: Yields too low vs. macro
Red FVG: Yields too high vs. macro

Fair Valuation Gap (FVG) in Standard Deviations

USA	Qi Model Value	FVG	R2
US 2Y	4.33	-0.33	83
US 5Y	4.31	0.04	87
US 10Y	4.47	0.19	84
US 5Y TIPS	2.40	0.34	76
US 10Y TIPS	2.35	0.34	73
Europe	**Qi Model Value**	**FVG**	**R2**
UK 2Y	4.33	-0.03	68
UK 5Y	4.29	0.15	76
UK 10Y	4.55	0.36	75
Germany 2Y	2.23	-0.01	65
Germany 5Y	2.21	0.47	44
Germany 10Y	2.42	0.93	34
France 2Y	2.51	0.23	67
France 5Y	2.74	0.45	38
France 10Y	3.18	0.97	38
Italy 2Y	2.56	-0.16	71
Italy 5Y	2.97	0.32	55
Italy 10Y	3.50	0.96	46
Asia	**Qi Model Value**	**FVG**	**R2**
Japan 2Y	0.68	-0.08	48
Japan 5Y	0.83	0.25	65
Japan 10Y	1.18	0.32	60
China 2Y	1.16	0.46	6
China 5Y	1.41	0.07	4
China 10Y	1.66	-0.09	12

Source: Macrobond

Right now:

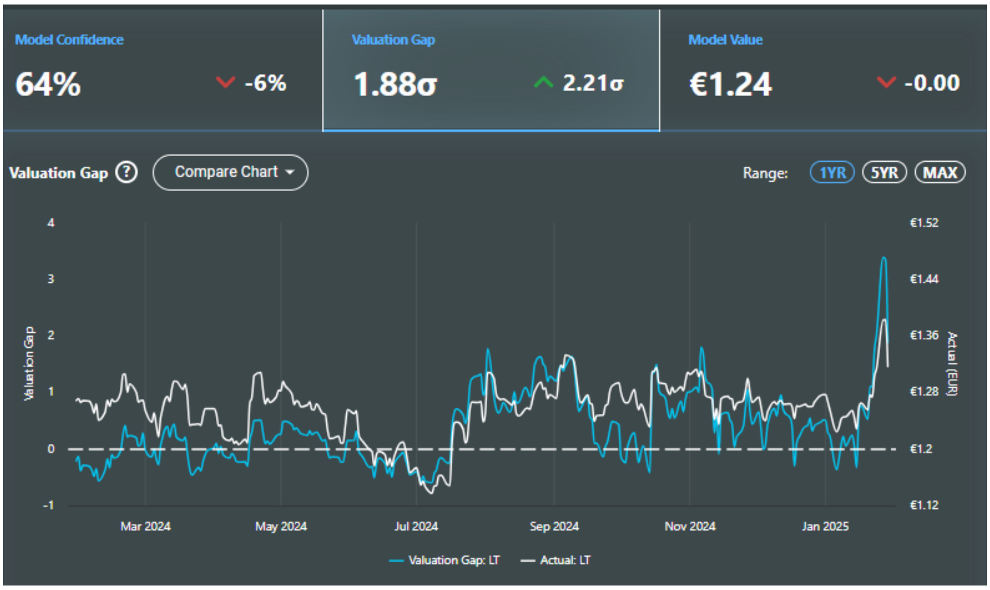
- the most effective trade for bond bears looking to fade this week's move is in 2y USTs where yields sit 0.3 sigma (12bp) below macro fair value.
- hard "risk off" proponents should look at 10y Bunds where yields sit 0.9sigma (15bp) too high to aggregate macro conditions.
- a risk off "lite" scenario favours 10y OATs & BTPs. For yield hungry investors, the FVG for both 10y French & Italian bonds looks similar to Bunds – almost 1 sigma too high.

4. European Bulls should favour Tech over Luxury

Since the US election, the best performing sector in Europe is SXQP – personal & household goods – dominated by luxury goods. Banks and Technology have also outperformed but the relative winner has been European luxury goods. However, the most recent results of LVMH saw overall Q4 revenues only rise 1% y/y. Sales in the region that included China fell 10% y/y. While recurring operating income missed estimates. The result is that the stellar performance of the sector relative 12mth fwd earnings expectation is likely now questioned.

The same disconnect between price and earnings is not seen for technology names. We posed the question in our note earlier in the week if Trump is actually a catalyst for RoW to act more forcefully on investment in AI to maintain competitiveness, particularly in light of the Stargate initiative.

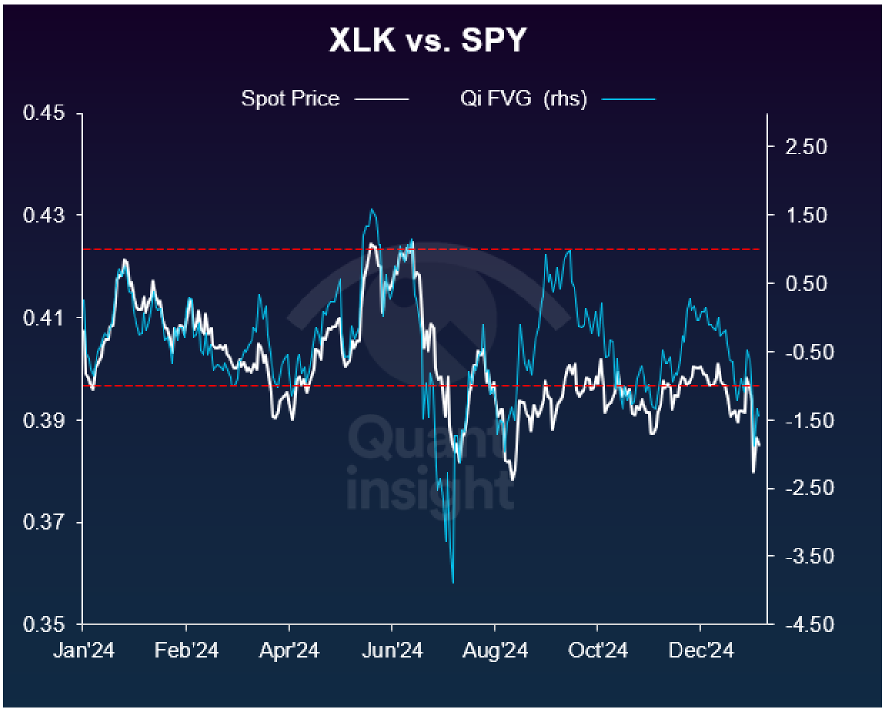
Scanning Qi's models, we see a large disconnect open up in the macro warranted valuations of SXQP relative to SX8P (Technology sector). The valuation gap of SXQP vs. SX8P is at +1.9 sigma. The mean-reverting relationship of the FVG to the price relative has remained intact over the year, implying that European bulls here should favour Tech over Luxury.



5. <u>XLK vs. SPY – tactically oversold</u>

Any focus on Technology stocks inevitably requires a focus on the US outlook. On Qi, screening US sectors versus the broader market, the cheapest RV pair currently is XLK vs. SPY.

It sits 1.5 sigma (3.7%) cheap. Qi model value has been flatlining in January, so the DeepSeek sell-off looks like it has overshot somewhat relative to macro fundamentals. Decent corelation between the RV pair & Qi's FVG suggests there's scope for a profitable mean reversion.



6. GBP – worst G7 currency in 2025

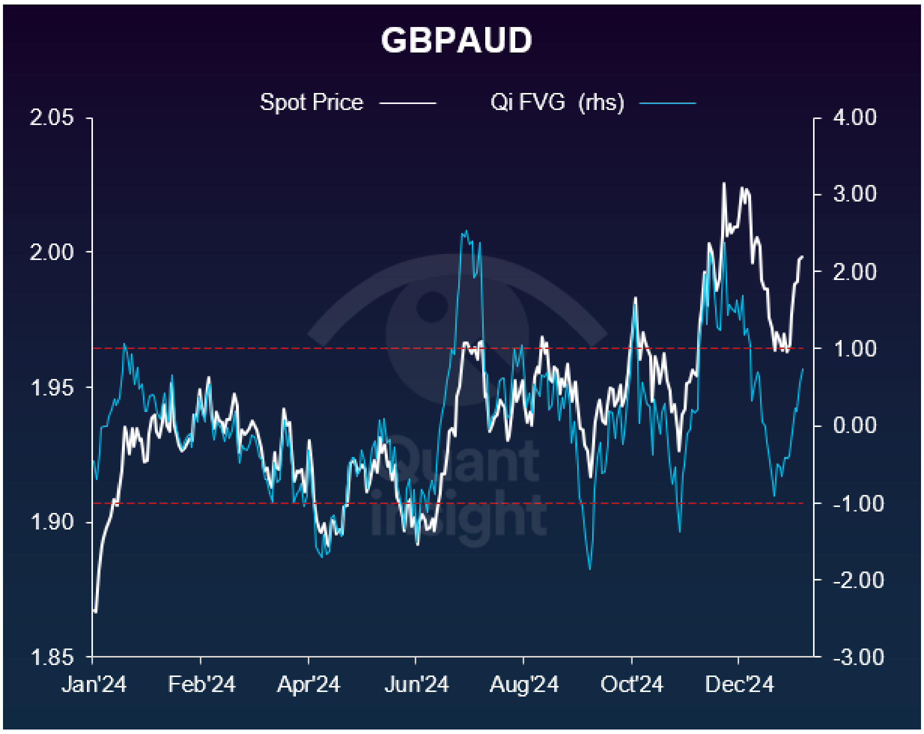
The mood music in the UK remains downbeat - the post Budget fallout for jobs & growth continues to weigh despite the government's attempts to talk a positive game. The latest bearish narrative comes from the weak Pound (the worst performing major currency year-to-date) & its potential to make imported inflation worse & limit the BoE's ability to cut rates.

Model Name	Confidence(%)	Val Gap	Val Gap (σ)
GBPUSD	82%	-2.68%	-1.25
GBPJPY	61%	-3.01%	-1.16
GBPCAD	45%	-0.95%	-0.63
GBPNOK	21%	-0.86%	-0.46
GBPCHF	66%	-0.54%	-0.41
GBPSEK	34%	-0.42%	-0.29
GBPNZD	45%	0.46%	0.22
EURGBP	9%	0.79%	0.71
GBPAUD	38%	1.20%	0.74

On Qi, Sterling screens as cheap versus its peers. Cable especially which sits over 1 standard deviation below model fair value.

Over q4 last year Qi model value for Cable fell 4.7% but macro momentum is turning. Model value bottomed on Jan 15th & has bounced 3% since then. In short, there's a fair amount of bad news already priced in & macro conditions are showing signs of improving.

High conviction bears determined to overrule a quantitative framework should look at GBPAUD rather than Cable. Aussie is another unloved currency in 2025 – proximity to China & RBA rate cuts tend to dominate qualitative commentary.



On our metrics GBPAUD is the one G7 cross where Sterling screens as rich. The FGV is +0.74 (+1.2%). The chart below overlays spot with the Qi FVG - it shows the Valuation Gap can extend further, but a strong correlation suggesting its done a decent job of capturing local highs & lows.